

## Message Text

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ACTION XMB-04

INFO OCT-01 ARA-06 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 RSC-01 TRSE-00 OPIC-03 SP-02

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P 101742Z JAN 75

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 389

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EO 11652: N/A

TAGS: BEXP, PE

SUBJECT: PROBLEMS WITH THREE EXIMBANK LOAN/LOAN  
GUARANTEES TO PERU

REF: LIMA 9360

1. SUMMAY: DURING THE PAST SIX MONTHS, EXIMBANK HAS MADE FINAL COMMITMENTS FOR THREE LOAN/LOAN GUARANTEES TO PERUVIAN PUBLIC ENTITIES. ONE WAS MADE TO AEROPERU THROUGH COFIDE, THE STATE DEVELOPMENT BANK, FOR THE PURCHASE OF USED BOEING 727 JET AIRPLANE WHICH HAS BEEN DELIVERED AND IS NOW IN SERVICE. THE SECOND WAS MADE TO CORPAC, THE STATE ENTITY IN CHARGE OF AIRPORTS, AGAIN THROUGH COFIDE, FOR THE PURCHASE OF AIRPORT EQUIPMENT. THE THIRD WAS MADE TO THE AIR MINISTRY THROUGH BANCO DE LA NACION FOR THE PURCHASE OF TWO LEAR JETS WHICH ARE NOW OPERATING IN PERU. THERE HAVE BEEN SEVERAL PROBLEMS WITH THE FINALIZATION OF THESE LOAN/LOAN GUARANTEES, AND THE EMBASSY IS SERIOUSLY CONCERNED THAT THESE PROBLEMS MIGHT NOT ONLY IMPERIL AT LEAST ONE OF THESE THREE PURCHASES, BUT ALSO PRESENT A BARIER TO FURTHER EXIMBANK ACTIVITY IN PERU. THIS CABLE SUMMARIZES THE PROBLEMS WITH THESE THREE LOAN/LOAN GUARANTEES. THE INFORMATION WAS OBTAINED IN DISCUSSIONS WITH COFIDE,  
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BANCO DE LA NACION, AND THE THREE U.S. COMMERCIAL BANKS

INVOLVED - FIRST NATIONAL CITY BANK (FNCB), UNITED CALIFORNIA BANK (UCB), AND MANUFACTURERS HANOVER TRUST.

2. THE EMBASSY BELIEVES THAT THESE PROBLEMS STEM, IN PART AT LEAST, FROM THE FACT THAT EXIMBANK WAS INACTIVE IN PERU FOR SOME YEARS PENDING RESOLUTION OF INVESTMENT DISPUTES. IN THE INTERIM, CONSIDERABLE CHANGE TOOK PLACE IN THE ADMINISTRATIVE STRUCTURE OF THE GOP. FACE-TO-FACE DISCUSSIONS BETWEEN EXIMBANK AND GOP OFFICIALS NOW APPEAR NECESSARY TO RESOLVE THE PROBLEMS WHICH HAVE RESULTED, WHICH IN OUR VIEW APPEAR TO BE LARGELY TECHNICAL, AND THE EMBASSY SO RECOMMENDS (SEE PARAGRAPH 8 BELOW). ONCE THE INITIAL PROBLEMS HAVE BEEN OVERCOME, THE WAY WILL BE CLEAR FOR CONTINUED, ROUTINE OPERATIONS, WITH CONSEQUENT ADVANTAGE TO THE U.S. EXPORT POSITION HERE. THE ALTERNATIVE IS STAGNATION AND GOP MISINTERPRETATION THAT USG IS NOT REALLY INTEREST IN NORMAL EXIMBANK OPERATIONS IN PERU. END SUMMARY.

3. PURCHASE OF AIRPORT EQUIPMENT-EXIMBANK CREDIT NO. 5590. AFTER RECEIVING THE SEPTEMBER 13, 1974, DRAFT AGREEMENT, CODIDE SENT A TELEX TO THEODORE HARDEEN AT EXIMBANK ON NOVEMBER 21 WITH SUGGESTED CHANGES. HARDEEN'S NOVEMBER 29 TELEX ACCEPTED SOME OF COFIDE'S OBJECTIONS AND REJECTED OTHERS. SINCE THEN, COFIDE HAS DISCUSSED THIS MATTER WITH THE LOCAL UCB REPRESENTATIVE WHO HAS FORWARDED ALL RELEVANT MATERIAL ALONG WITH HIS RECOMMENDATIONS TO HIS HOME OFFICE. ACCORDING TO THE UCB REPRESENTATIVE, COFIDE FEELS THAT EXIMBANK DOES NOT WANT TO EXTEND LOANS TO PERU AND, THEREFORE, THAT EXIMBANK HAS PLACED UNACCEPTABLE CONDITIONS IN THE AGREEMENT. BOTH THE UCB REPRESENTATIVE AND THE EMBASSY HAVE STRONGLY DENIED THAT THIS IS, IN FACT, THE CASE. NEVERTHELESS, THE UCB REPRESENTATIVE THINKS THAT WITHOUT SIGNIFICANT CHANGES, THE AGREEMENT WILL NOT BE SIGNED BY COFIDE BECAUSE OF RESTRICTIONS PUT ON THE CONTENT OF SUCH CONTRACTS BY THE MINISTRY OF ECONOMY AND FINANCE AND BY THE PUBLIC AUDITING OFFICE. THE UCB REPRESENTATIVE ALSO THINKS THAT THE DRAFT AGREEMENT IS ONE ORIENTED TOWARD A PRIVATE COMMERCIAL FIRM RATHER THAN TOWARD PUBLIC LIMITED OFFICIAL USE

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SECTOR ENTITIES SUCH AS COFIDE AND CORPAC. IT APPEARS TO US THAT SOME OF THE CLAUSES OF THIS CONTRACT DO, IN FACT, PLACE EXCESSIVE REQUIREMENTS ON COFIDE AND, THROUGH EXTENSION, ON GOP.

4. PURCHASE OF BOEING 727-EXIMBANK CREDIT NO. 5577.

A. COFIDE HAS DISCUSSED ITS OBJECTIVES TO THE

OCTOBER 10 DRAFT AGREEMENT WITH THE FNCB REPRESENTATIVE  
HERE, AND THE LATTER HAS FORWARDED THIS INFORMATION TO  
HIS HOME OFFICE. HE ALSO IS PESSIMISTIC ABOUT THE POSSI-  
BILITY OF SIGNING THIS CONTRACT IN THE PRESENT FORM  
BECAUSE OF THE REQUIREMENTS IMPOSED ON COFIDE AND THE  
GOP. HE AGREED WITH THE UCB REPRESENTATIVE THAT THIS  
AGREEMENT SEEMS TO BE ORIENTED TOWARD A PRIVATE,  
RATHER THAN A PUBLIC ENTITY.

B. FNCB HAS GIVEN COFIDE BRIDGE-FINANCING FOR THE  
TOTAL COST OF THE PLANE, WHICH HAS BEEN IN SERVICE HERE  
FOR SEVERAL MONTHS. THIS BRIDGE-FINANCING COMES DUE ON  
JANUARY 29 AND BOTH COFIDE AND FNCB ARE CONCERNED ABOUT  
ROLLING IT OVER. THE EMBASSY IS MORE CONCERNED ABOUT  
THE CONSEQUENCES IF COFIDE AND EXIMBANK ARE NOT ABLE TO  
AGREE ON THE TERMS OF AN AGREEMENT. COFIDE WOULD THEN  
HAVE TO OBTAIN COMMERCIAL BANK FINANCING FOR THIS OPER-  
ATION. FNCB NOW CHARGES ITS GOVERNMENT CUSTOMERS  
1-3/4 PERCENT TO 2 PERCENT OVER ITS BASE, WITH A  
7-YEAR REPAYMENT PERIOD. IF COFIDE WERE FORCED TO  
RESORT TO SUCH FINANCING FOR 100 PERCENT OF THE PLANE'S  
PURCHASE PRICE (AS COMPARED TO EXIMBANK'S 7 PERCENT  
INTEREST FOR 45 PERCENT OF THE PURCHASE PRICE AND FNCB'S  
ONE PERCENT OVER BASE FOR 45 PERCENT OF THE PURCHASE PRICE  
WITH A TOTAL REPAYMENT PERIOD OF 14 YEARS) THIS WOULD  
REPRESENT A SIGNIFICANT BLOW TO OUR CREDIBILITY IN PERU  
AND WOULD PROBABLY RENDER ANY INCREASED EXIMBANK EXPOSURE  
IN PERU VIS-A-VIS PUBLIC ENTITIES (WHICH WOULD BE THE  
MOST RELEVANT ENTITIES FOR EXIMBANK) EXTREMELY DIFFICULT.  
IN ADDITION, IT WOULD FURTHER EXPOSE US TO THE  
CHARGE THAT WE ARE INSINCERE BY PROMISING EXIMBANK  
FINANCING WITH NO REAL INTENTION OF FOLLOWING THROUGH.

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C. FAILURE ON THE PART OF COFIDE AND EXIMBANK TO SIGN THIS AGREEMENT FOR THE 727 WOULD ALSO DAMAGE U.S. COMMERCIAL POSSIBILITIES HERE FOR THE INCREASING SALE OF U.S. GOODS AND SERVICES. FNCB REPRESENTATIVE TELLS US THAT HE HAS HAD A CONTINUOUS STREAM OF U.S. BUSINESSMEN INTERESTED IN SALES TO PERU AND IN EXIMBANK FINANCING FOR THOSE SALES. HE HAS BEEN FORCED TO DISCOURAGE THEM AT THE PRESENT TIME FROM SEEKING EXIMBANK FINANCING BECAUSE OF THE PROBLEMS WITH THE EXISTING CONTRACTS. WE CANNOT CALCULATE THE LOSS IN U.S. SALES BECAUSE OF THIS, BUT WE ARE CERTAIN THAT THIS LOSS WILL BE SUBSTANTIAL IF THE PROBLEMS CONTINUES.

5. PURCHASE OF LEAR JETS-EXIMBANK CREDIT NO. 5556. THE DRAFT COPY OF THIS AGREEMENT, MAILED BY EXIMBANK NOVEMBER 18 TO BANCO DE LA NACION, HAS NOT YET BEEN RECEIVED HERE. HOWEVER, MANUFACTURERS HANOVER TRUST HAS GIVEN THE BANK BRIDGE-FINANCING, AND , PENDING RECEIPT OF THE DRAFT AGREEMENT, WE HAVE NO REASON TO EXPECT THAT BANCO DE LA NACION WILL NOT FIND ITSELF IN THE SAME POSITION AS COFIDE.

6. COMMENT: THE EMBASSY IS NOT MERELY CONCERNED ABOUT THESE THREE SALES, WHICH TOTAL LESS THAN \$10 MILLION. OF GREATER CONCERN IS THE CREDIBILITY OF EXIMBANK IN LIMITED OFFICIAL USE

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PERU, THE FUTURE OF EXIMBANK OPERATIONS HERE, AND USG CREDIBILITY IN GENERAL. OBVIOUSLY, PERU WAS TAKING A RISK IN ACCEPTING DELIVERY OF ITEMS FOR WHICH FINANCING HAD NOT BEEN ASSURED. BUT, TO PERU, WHICH HAS HAD NO EXPERIENCE WITH EXIMBANK LOAN/LOAN GUARANTEES IN THE RECENT PAST, THE DIFFICULTY WAS PERCEIVED TO HAVE BEEN IN OBTAINING THE LOAN COMMITMENTS, AND ANY PROBLEMS WITH A CONTRACT, IT WAS THOUGHT, WOULD BE MINOR AND EASILY SOLVABLE. THIS THINKING WAS REINFORCED BY THE FACTS THAT EXIMBANK HAS EXTENDED LOANS TO SO MANY COUNTRIES (INCLUDING THE COMMUNIST BLOC), THAT SPECIFIC MENTION WAS MADE DURING THE GREENE NEGOTIATIONS THAT EXIMBANK WOULD RENEW ITS OPERATIONS IN PERU, AND THAT EXIMBANK VICE-PRESIDENT O'CONNOR THEREAFTER VISITED LIMA, WHICH SIGNIFIED TO PERU THAT EXIMBANK WAS SERIOUSLY INTERESTED IN DOING BUSINESS HERE.

7. DISCUSSIONS ARE CURRENTLY UNDERWAY FOR EXIMBANK FINANCING PART OF PERU'S TRANS-ANDEAN OIL PIPELINE. FNCB HAS DISCUSSED WITH U.S. SUPPLIERS THE POSSIBLE SALES OF LARGE QUANTITIES OF EQUIPMENT FOR A \$60 MILLION BAGASSE PROCESSING PLANT AND A \$20 MILLION NEWSPRINT PLANT. THE OPPORTUNITIES FOR U.S. SALES IN PERU ARE GROWING, BUT A NUMBER OF SUCH SALES WILL DEPEND ON EXIMBANK, NOT ONLY FOR DIRECT FINANCING, BUT ALSO AS A TACIT EXPRESSION OF RENEWED USG WILLINGNESS TO SUPPORT U.S. BUSINESS IN SELLING TO PERU ON A NORMAL COMMERCIAL BASIS.

8. ACTION REQUESTED: THE EMBASSY BELIEVES THAT THE PROBLEMS WITH THESE CONTRACTS CANNOT BE SOLVED THROUGH EXCHANGES OF LETTERS AND CABLES, BUT RATHER REQUIRE FACE-TO-FACE DISCUSSIONS. THEREFORE, WE STRONGLY RECOMMEND THAT EXIMBANK SEND THEODORE CHAPMAN, FINANCIAL ANALYST, AND A MEMBER OF EXIMBANK'S LEGAL STAFF TO PERU FOR SEVERAL DAYS FOR DISCUSSIONS WITH COFIDE AND BANCO DE LA NACION ON THESE LOAN/LOAN GUARANTEES. HOPEFULLY, THE PROBLEMS THAT HAVE ARISEN CAN, THROUGH THESE DISCUSSIONS, BE RESOLVED AND NEW GROUND RULES ESTABLISHED. THE STAGE WILL THEN BE SET, WE BELIEVE, FOR FURTHER NORMAL COMMERCIAL/FINANCIAL RELATIONS, WITH LIMITED OFFICIAL USE

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CONSEQUENT BENEFITS FOR U.S. EXPORTS TO PERU. IN ADDITION, EXIMBANK OFFICIALS COULD PARTICIPATE, IF IT WERE CONSIDERED WORTHWHILE, IN DISCUSSIONS WITH PETROPERU AND COFIDE REGARDING POSSIBLE EXIMBANK FINANCING FOR THE OIL PIPELINE. THEY MAY ALSO BE ABLE TO DISCUSS WITH US HOW THE EMBASSY MAY BE OF GREATER ASSISTANCE WHEN PROBLEMS SUCH AS THOSE DESCRIBED ABOVE ARISE. BARNEBEY

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